



Annual Audit Letter on the 2018/19 External Audit Lewes District Council

July 2022

Contents

	Page
1 Letter to Members	3
2 Key Messages	4
3 Responsibilities and Scope	5
4 Audit of the Accounts	6
5 Value for Money	10
6 Other Matters	11

1. Letter to Members

The Members
Lewes District Council
Southover House
Southover Road
Lewes
BN7 1AB

11 August 2022

Dear Members

We have pleasure in setting out this Annual Audit Letter to summarise the key matters arising from the work that we have carried out in respect of the audit for the year ended 31 March 2019.

Although this letter is addressed to the Members of Lewes District Council ("the Council"), it is also intended to communicate the significant issues we have identified in an accessible style to key external stakeholders including members of the public.

This letter has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Ltd. This is available from www.psaa.co.uk.

This letter has been discussed and agreed with the Chief Finance Officer. A copy of the letter will be provided to all Members.

This is our first year as the external auditor of the Council following the transition to the PSAA contract in 2018/19. The audit was impacted by: the timing of receipt of initial draft financial statements after the deadline for 2018/19 audits; prior year adjustments in respect of Capital Receipts in Advance and Capital Grant Unapplied Account; and other issues identified on property valuation and in the quality of the draft financial statements and supporting information for the audit. These led to significant additional audit work being required, with the impact on the timetable further exacerbated by the impact of the Covid-19 pandemic. All these factors led to an extension of the timetable for completing the Statement of Accounts. Our audit opinion was signed on 29 June 2022.

Yours faithfully,



Ben Sheriff
Key Audit Partner
for and on behalf of Deloitte LLP
St Albans, United Kingdom

2. Key Messages

Statement of Accounts	
<p>Unqualified opinion issued on 29 June 2022</p>	<p>In 2018/19 the Authority was required to prepare its Statement of Accounts in accordance with International Financial Reporting Standards (“IFRS”) as defined in the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 and other relevant legislation.</p> <p>The first draft of the Statement of Accounts was provided to us in November 2019, after the target date for 2018/19 audit completion and after availability of the audit engagement team, with consequent delays on the audit process.</p> <p>We issued our audit opinion on the financial statements on 29 June 2022. Our opinion was not qualified.</p> <p>Materiality for the Council’s accounts was set at £1.8m.</p>
Value for Money (“VfM”) conclusion	
<p>Unqualified conclusion issued on 29 June 2022</p>	<p>We are required to base our statutory VFM conclusion on the criteria specified by the National Audit Office. This is an evaluation of whether the Council has in place proper arrangements to ensure properly informed decisions were taken and the Council deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.</p> <p>We issued an unqualified VFM conclusion on 29 June 2022. Our ISA 260 report to the Audit Committee in September 2021 concluded there are no material matters which we need to report in our Auditor’s report on the financial statements with respect to the Council’s arrangements to secure economy, efficiency and effectiveness in the use of resources.</p>
Audit findings	
<p>Our Audit Committee reporting included findings from our controls work and recommendations for improvement.</p>	<p>International Standards on Auditing (UK) require us to communicate in writing to those charged with governance the significant findings from our audit. Our report to the September 2021 Audit Committee meeting included our findings on internal control weaknesses and recommendations arising from the 2018/19 audit.</p>
Independence and Objectivity	
<p>Independence and objectivity</p>	<p>In our professional judgement the policies and safeguards in place ensure that we are independent within the meaning of all regulatory and professional requirements and that the objectivity of the audit partner and audit staff is not impaired.</p>

3. Responsibilities and Scope

Responsibilities of the Council and Auditors

The Council is responsible for maintaining the control environment and accounting records and preparing the accounting statements in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 based on IFRS and other relevant legislation.

We are appointed as the Council's independent external auditors by PSAA, the body responsible for appointing auditors to local public bodies in England where they have opted into this programme.

As the Council's appointed external auditor, we are responsible for planning and carrying out an audit that meets the requirements of the National Audit Office's Code of Audit Practice ("the Code"). Under the Code, we have responsibilities in two main areas:

- auditing the Council's accounts; and
- evaluating whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money ("VFM") conclusion).

These responsibilities are set out in greater detail in the Statement of Responsibilities of Auditors and Audited Bodies. This document can be accessed here: <https://www.psa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/> .

The scope of our work

We conducted our audit in accordance with the NAO Code of Audit Practice and the International Standards on Auditing (UK and Ireland) as adopted by the UK Auditing Practices Board ("APB"). The audit opinion on the accounts reflects the financial reporting framework adopted by the Council, being the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 based on IFRS and other relevant legislation.

We conducted our work on the 2018/19 VFM conclusion in line with guidance issued by the National Audit Office in November 2017.

4. Audit of the Accounts

Statement of Accounts	
Unqualified opinion issued on 29 June 2022	<p>We issued an unqualified opinion on the Council's 2018/19 accounts on 29 June 2022.</p> <p>Before we give our opinion on the accounts, we are required to report to those charged with governance (here the Audit Committee) any significant matters arising from the audit. To address this requirement, our report was issued to the Audit Committee meeting held on 27 September 2021.</p> <p>The content of these papers including significant matters arising from the audit were discussed with the members of the Audit Committee in meetings during the course of the audit. These papers are available to view online as part of the Committee packs for those meetings.</p>
Materiality	<p>We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.</p> <p>Based on our professional judgement, materiality for the Council's accounts was set at £1.8m which equated to 2% of estimated gross expenditure at the planning stage of the audit. This benchmark was chosen as the Council is a non-profit organisation and total expenditure is a key measure of financial performance for users of the financial statements.</p> <p>We agreed with the Audit Committee that we would report to the Committee all uncorrected audit differences in excess of £90k, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We would also report to the Audit Committee on any uncorrected disclosure matters identified when assessing the overall presentation of the financial statements. For the avoidance of doubt, these matters were identified and communicated to the audit committee in relation to the audit of the 2018/19 Statement of Accounts in the meeting held in September 2021.</p>
Significant Risks	<p>Our audit work was designed to specifically address the significant audit risks presented in further detail below. These significant audit risks were the areas that were deemed to be those with the greatest potential of being materially incorrect in the financial statements and were therefore areas of greater focus for the audit team.</p> <ul style="list-style-type: none"> • <u>Valuation of property assets:</u> <p>The Council held £316.5m of property assets at 31 March 2019, an increase of £21.8m from prior year. The increase is made up of £12.8m revaluation gain, £9.0m of additions and disposals of £0.9m, offset by depreciation of £8.0m and reversal of depreciation to the gain on revaluation of £8.9m. Investment properties increased from £9.5m to £11.7m, of which £2.9m was additions and the remainder being valuation losses.</p> • Risk identified

A market review is carried out annually by Wilks, Head & Eve (WHE, a member of Chartered Surveyors and Town Planners), on behalf of the Council. Council dwellings, Other Land and Buildings and Surplus Properties are subject to periodic revaluation: all such assets are revalued at 5 year intervals. These were last valued as at 1 April 2014 by the Valuation Office Agency. The next full revaluation is due to be carried out in 2019/20.

Property valuations have been an area of challenge for the Council previously, which resulted in a change in valuer to WHE due to delays over delivery from previous firms.

- **Deloitte response**

- Our testing of the valuations of the Council’s property assets involved our property valuation specialists, Deloitte Real Estate (DRE) to review and challenge the valuation undertaken, as well as testing where relevant of inputs to the valuation. We checked that the property valuations included in the financial statements agree to the valuation report. We concluded that the valuations were materially correct, with a number of immaterial uncorrected misstatements identified. We made a number of recommendations to the Council to improve the valuation process in future years.

- **Cut off and Completeness of Expenditure via accruals and provisions:**

We concluded satisfactorily in this area and there are no findings to report.

- **Risk identified**

Under UK auditing standards, there is a presumed risk in respect of revenue recognition due to fraud. We rebutted this risk, and instead identified that the fraud risk lies with the completeness of expenditure and completeness and valuation of accruals. As per Practice note 10 most public bodies are net spending bodies, the risk of material misstatements due to fraud related to expenditure and accruals is high as public sector bodies may manipulate expenditure/ accruals which involve degree of estimations in order to meet externally set targets.

- **Deloitte response**

- We obtained an understanding of the key controls in place in relation to recording completeness of accruals and provisions.
- We tested the completeness of expenditure by performing a detailed review of accruals and provisions.
- As part of this focused testing, we challenged any assumptions made in relation to year end accruals and provisions.
- We reviewed the year on year movement in accruals and provisions and investigated significant movements.
- We tested a detailed sample of expenditure to ensure that there were no instances where items were recorded in the incorrect period especially at year end.

- **Management override of controls:** We concluded satisfactorily in this area. We did not identify any significant bias in the key judgements made by management based on work performed. Furthermore, we did not identify any instances of management override of controls in relation to the specific

	<p>transactions tested based on work performed. There are no other findings to report</p> <ul style="list-style-type: none"> • Risk identified <p>In accordance with ISA 240 (UK) management override is a significant risk. This risk area includes the potential for management to use their judgement to influence the financial statements as well as the potential to override the Council’s controls for specific transactions.</p> • Deloitte response <ul style="list-style-type: none"> ○ Significant and unusual transactions: There were no significant or unusual transactions in the period. ○ Journals: We obtained an understanding of the controls in place and performed relevant testing. ○ The journal entries were selected using computer assisted profiling based on areas which we consider to be of increased interest. ○ We completed testing of the appropriateness of journal entries recorded in the general ledger. We tested the appropriateness of other adjustments made in the preparation of financial reporting. ○ Accounting estimates: We obtained an understanding of the controls over key accounting estimates and judgements. The key judgements in the financial statements are those selected as significant audit risks and other areas of audit interest: valuation of the Council’s estate and the pension liability. We reviewed accounting estimates for biases that could result in material misstatements due to fraud.
<p>Overall opinion</p>	<p>We issued an unqualified opinion on the Council’s 2018/19 accounts on 29 June 2022. Our opinion confirms that the accounts present a true and fair view of the financial position of the Council as at 31 March 2019 and its income and expenditure for the year then ended.</p>
<p>Annual Governance Statement and Other Information</p>	
<p>No issues were identified in relation to this work</p>	<p>As appointed auditors, we review the Annual Governance Statement (“AGS”) and other information presented with the financial statements to check that information is consistent with the financial statements. Following our procedures, the Council issued an addendum to the AGS covering the arrangements over the Council’s subsidiaries and other investments. We do not have any other findings to report in this area.</p>
<p>Powers and Duties</p>	
<p>We did not receive any questions about the accounts or make any public interest reports</p>	<p>Under the Local Audit and Accountability Act 2014, auditors have specific powers and duties, including to give electors the opportunity to raise questions about the accounts and to consider and decide upon objections received in relation to the accounts. We did not receive any such questions or objections.</p> <p>We have a duty to consider whether to issue a report in the public interest about something we believe the Council should consider, or if the public should know about.</p> <p>We have not identified any matters that would require us to issue a public interest report.</p>

5. Value for Money

Background and approach

We are required to issue a value for money ("VfM") conclusion within our report on the financial statements. We are required to base our VfM conclusion on criteria specified by the National Audit Office ("NAO") where we are required to be satisfied those proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources. Our assessment is based on the following reporting criterion:

"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people."

The following sub-criteria are then used to inform and guide our work and inform our overall judgement although there is no requirement to separate these nor to report against each sub-criteria:

- Informed decision making
- Sustainable resource deployment
- Working with partners and other third parties.

We would emphasise that it is the arrangements in place that we are required to assess, and not the actual decisions made by the Council.

We planned our local programme of work based on our risk assessment, which was informed by a series of risk factors determined by the National Audit Office.

We did not identify any significant risks as part of our risk assessment. Our reporting to the Audit Committee also included our observations in respect of the Council's reserves and the risks looking forward in respect of financial sustainability.

The VfM conclusion

Having performed our work in line with guidance received from the National Audit Office we issued an unqualified value for money conclusion for the 2018/19 financial year.

6. Other Matters

Reports issued

Reports issued during the course of the 2018/19 audit included:

- Planning report including Fee reporting in March 2019;
- Updates on 2018/19 audit to Those Charged with Governance issued in September 2020, November 2020, January 2021 and March 2021;
- Report to Those Charged with Governance on the Planning report of the 20/21 audit of the Council in March 2021;
- Report to Those Charged with Governance on 2018/19 audit of the Council in September 2021;
- Updates on 2018/19 audit to Those Charged with Governance issued in March 2022 and July 2022; and
- This Annual Audit Letter.



Statement of Responsibilities

The Statement of Responsibilities of Auditors and Audited Bodies issued by PSAA explains the respective responsibilities of auditors and of the audited body and this report is prepared on the basis of, and our audit work is carried out in accordance with, that statement.

The matters raised in this report are only those that came to our attention during our audit and are not necessarily a comprehensive statement of all weaknesses that exist or of all improvements that might be made. You should assess recommendations for improvements for their full implications before they are implemented. In particular, we would emphasise that we are not responsible for the adequacy and appropriateness of the national data and methodology supporting our value for money conclusion as they are derived solely from the National Audit Office.

This report has been prepared for the Members, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other party.

An audit does not provide assurance on the maintenance and integrity of the website, including controls used to achieve this, and in particular on whether any changes may have occurred to the Annual Audit Letter since first published. These matters are the responsibility of the Council but no control procedures can provide absolute assurance in this area.



This document is confidential and it is not to be copied or made available to any other party. Deloitte LLP does not accept any liability for use of or reliance on the contents of this document by any person save by the intended recipient(s) to the extent agreed in a Deloitte LLP engagement contract.

If this document contains details of an arrangement that could result in a tax or National Insurance saving, no such conditions of confidentiality apply to the details of that arrangement (for example, for the purpose of discussion with tax authorities).

Deloitte LLP is a limited liability partnership registered in England and Wales with registered number OC303675 and its registered office at 1 New Street Square, London, EC4A 3HQ, United Kingdom.

Deloitte LLP is the United Kingdom affiliate of Deloitte NSE LLP, a member firm of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"). DTTL and each of its member firms are legally separate and independent entities. DTTL and Deloitte NSE LLP do not provide services to clients. Please see www.deloitte.com/about to learn more about our global network of member firms.

© 2022 Deloitte LLP. All rights reserved.